

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF MINNESOTA**

In re:

Bky. No. 03-35458

ASTROCOM CORPORATION

Chapter 11

Debtor.

MODIFIED DISCLOSURE STATEMENT

I. INTRODUCTION

Astrocom Corporation (“Astrocom”, the “Debtor” or the “Company”) filed a voluntary petition for reorganization commencing this case under Chapter 11 of Title 11 of the United States Code (the “Code”) on August 7, 2003 (the “filing Date”). This Disclosure Statement (“Disclosure Statement”) is submitted pursuant to section 1125 of the Code to all known holders of claims and interests in order to adequately disclose information deemed to be material, important and necessary for Astrocom’s Creditors and interest holders to make an informed decision in exercising their right to vote for acceptance or rejection of the Debtor’s Modified Plan of Reorganization filed on July 26, 2004 (the “Plan”) with the United States Bankruptcy Court for the District of Minnesota (the “Court”). Terms used in this Disclosure Statement shall have the meanings given to them in the Code unless defined otherwise in the Plan or this Disclosure Statement.

In order for the Plan to be deemed to be accepted by an impaired class of Claims, claimants that hold at least two-thirds (2/3) in amount and more than one-half (1/2) in number of the Allowed Claims voting in such class (excluding claims of entities designated under subsection (e) of section 1126 of the Code) must vote for acceptance of the Plan. Astrocom seeks the acceptances of members of Classes 2 and 3. Acceptance by Classes 1 and 4 is not necessary because those classes are not impaired. Class 5 is deemed to have rejected the Plan.

YOU SHOULD READ THIS DISCLOSURE STATEMENT, THE PLAN AND ITS EXHIBITS IN THEIR ENTIRETY BEFORE VOTING ON THE PLAN. NO STATEMENTS OR INFORMATION CONCERNING ASTROCOM PARTICULARLY AS TO ITS FUTURE BUSINESS OPERATIONS, PROFITS AND FINANCIAL CONDITION OR ANY ASSETS OF ASTROCOM OR SECURITIES TO BE ISSUED OR CANCELLED PURSUANT TO THE PLAN ARE AUTHORIZED BY ASTROCOM OTHER THAN AS SET FORTH IN THIS DISCLOSURE STATEMENT.

The Plan fixes the Effective Date as the date on which certain conditions precedent have occurred and the Plan has been confirmed by a final order of the Court.

The Court may confirm the Plan if it is accepted by at least one impaired class of Claims voting thereon (excluding acceptances of insiders and Claims of entities designated under section 1126(e), and if the Court finds that the Plan does not discriminate unfairly and is fair and equitable with respect to each impaired class of Claims of Interests that does not vote to accept the Plan, all as more fully set forth in sections 1129(b) of the Code. Confirmation of the Plan by the Court over the objections of one or more classes of Claims or interests is generally referred to as “cramdown.” Pursuant to the Code, if the Plan is confirmed, it will be binding on the Debtor,

its Creditors, its interest holders, and all other parties in interest whether or not they have voted to accept the Plan.

The statements made in this Disclosure Statement are made as of the date hereof unless another time is specified herein and neither the delivery of this Disclosure Statement nor any exchange of rights made in connection herewith shall, under any circumstance, create an implication that there has been no subsequent change in the facts as set forth herein.

THE INFORMATION CONTAINED HEREIN IS NOT BASED ON AN AUDIT OF THE DEBTOR'S FINANCIAL AFFAIRS. IN ADDITION, PROJECTED FINANCIAL INFORMATION IS BASED ON A VARIETY OF ASSUMPTIONS THAT ARE SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES. NO ASSURANCES CAN BE OR ARE BEING MADE THAT PROJECTIONS WILL BE ATTAINED. CONSEQUENTLY, WHILE THE DEBTOR HAS PREPARED THE INFORMATION CONTAINED HEREIN IN GOOD FAITH THE DEBTOR DOES NOT WARRANT OR REPRESENT THAT ALL INFORMATION CONTAINED HEREIN IS COMPLETELY ACCURATE.

II. THE DEBTOR

A. History and Chapter 11 Filing.

Astrocom Startup

Astrocom was incorporated in 1968. In early 1999, the Company recognized that, due to changing market conditions, its historic products were becoming less of a high technology sale and more of a low price commodity sale, with a resultant erosion of pricing and customer loyalty. In response to these changing conditions, the Company began to strategically refocus its product line from the historic products to the Wide Area Network (WAN) aggregation market. This refocus was initially directed at T1 aggregation, resulting in the Company's Imux 2000 product. However, due to the dynamic changes that have occurred in the Internet access marketplace and the strong emergence of DSL as an Internet access vehicle, with the resultant decline in demand for T1 lines, the Company responded with the PowerLink, which has been designed by the Company to be capable of aggregating any of the WAN technologies. As a result of this transition process, the Company has been operating in a start up mode and applying most of its resources toward product development.

Bandwidth Aggregation

Astrocom developed the PowerLink to address the perceived need in the market for a cost effective, versatile product that would aggregate multiple Wide Area Network (WAN) lines. The PowerLink was designed to allow users to bond multiple slower speed lines and create an incrementally faster WAN connection without having to implement more expensive WAN technology such as high speed T3 access lines and Border Gateway Protocol (BGP) routing technology. As shown below, as designed, the PowerLink can add bandwidth in lower speed increments without having to upgrade to a more expensive solution that may not even be available. For example, going from T1 to T3 may not be an option if T3 isn't offered in the user's area. PowerLink was designed to provide an affordable and scalable option designed to meet the WAN bandwidth and redundancy requirements in business and ISP environments. PowerLink was designed to be transparent to the overall system configuration.

Automatic Failover

A significant added benefit to having multiple WAN lines going to multiple Internet Service Providers is that the customer gets automatic failover. In the event that one or more of the lines or Service Providers fail, the PowerLink was designed to automatically distribute all of the traffic over the remaining active lines. This feature is extremely important to companies that depend on their Internet access to do business, such as; WEB hosting, business to business, main office connected to remote offices, etc.

A large manufacturer of Firewall and VPN (Virtual Private Network) servers recently introduced an automatic failover solution for VPN that utilizes the PowerLink. This is meaningful since it provides a relatively low cost answer to a very difficult issue. There can be no assurance that this solution will result in meaningful revenues for the product or that problems will not occur in the implementation.

The Company believes that a significant percentage of the applications for the PowerLink will utilize DSL access lines but the PowerLink was designed to be capable of operating with any of the available broadband access technologies or any combination of them, such as T1, Cable, Wireless, Satellite or ISDN.

The Company has identified the following competitors that have products that perform functions similar to the PowerLink:

Cisco Systems Inc has a product that incorporates the WAN aggregation similar to the PowerLink. This product is substantially more expensive than the PowerLink and will only aggregate a limited number of DSL WAN lines. It does not allow mixing WAN technologies and as a result, is not a general purpose solution.

Netopia is a provider of a broad range of WAN access devices and Central Office equipment. One of their products allows aggregating two DSL lines if the user has a Netopia DSL Access Multiplexer (DSLAM) in the Central Office at the other end of the lines being aggregated. This is a very limited implementation.

Fat Pipe is a privately held company with a product that is functionally similar to the PowerLink at a list price of approximately \$9,000 compared to a list price for the PowerLink of \$1,695.

RadWare has a product that is functionally similar to the PowerLink that ranges in cost from \$4,000 to \$17,000.

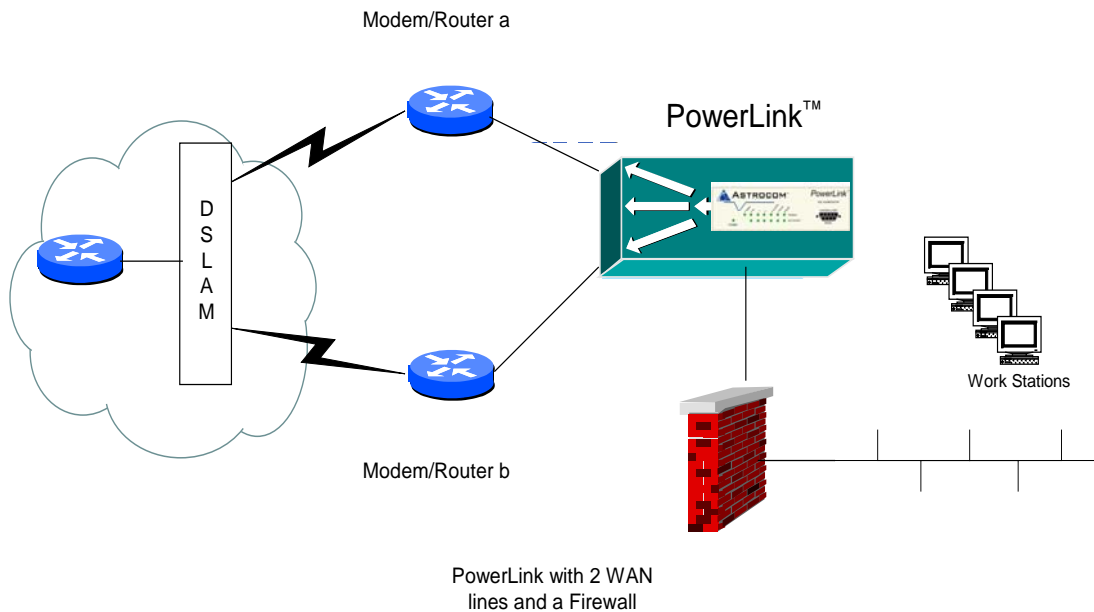


Diagram showing a typical system using the PowerLink to aggregate 2 WAN lines to a Local Area Network with a firewall and some workstations. Loss of a single WAN line results in all traffic being sent over the remaining link.

The prepetition development of the PowerLink product was funded by a series of subordinated debt and secured bridge loans. The Chapter 11 filing was precipitated by a number of factors, including: (1) a need of additional infusion of working capital; (2) default on repayment of several outstanding notes.

B. Current Operations and Reorganization Effort.

1. **Cost Reductions.** Astrocom has implemented and plans to continue to effect cost-savings actions, some of which are described below;
 - a. **Reduction in Personnel.** The number of persons employed by Astrocom has been reduced from eight persons in 2003 to five persons currently.
 - b. **Reduction in salaries.** All Astrocom employees are now paid on a commission basis wherein each employee is paid \$100 for each PowerLink sold (with a minimum commission of \$3,000 per month), up to a maximum of their prepetition salary or \$6,000 per month, whichever is less.

- c. Reduction in lease cost. Astrocom has reached an agreement with the current landlord wherein the Company will pay a reduced monthly lease payment of \$3,000 per month until such time as the landlord finds a replacement tenant. At such time as the landlord requests that the Company vacate the property, the Company intends to move into smaller facilities, of 3,000 to 4,000 square feet, with an anticipated monthly lease cost of approximately \$3,000.
 - d. Discontinuance of SEC Reporting. Astrocom has discontinued filing SEC reporting forms and plans to petition the SEC to become a non-reporting company following emergence from Chapter 11. The Company believes that this will result in a significant reduction in ongoing accounting and legal costs.
2. Asset Sales. Astrocom currently has various component level inventory that is not required for manufacture of the PowerLink product line. Astrocom anticipates that this inventory could be sold for as much as \$16,206, which could be used as working capital.

C. Plan Formulation.

Astrocom Management has developed the Plan and believes that with the cost reductions as outlined above in section II (B)(1), additional cash generated from the sale of assets as outlined above in section II (B)(2) accounts receivable financing that Astrocom can continue operations and develop the market for the PowerLink product line. Additionally, management believes that it will be desirable to raise additional working capital in the future to more aggressively market its products.

III. SUMMARY OF THE PLAN

A. Classification of Claims and Equity Interests.

1. Claims and Equity Interests Classified. For purposes of organization, voting, and Plan confirmation matters, except as otherwise provided herein, all Claims (except for Administrative Claim and Priority Tax Claims) and all Equity Interests shall be classified as set forth in Section 2.3 of the Plan.
2. Administrative Claims and Priority Tax Claims. As provided by Section 1123(a)(1) of the Bankruptcy Code, Administrative Claims and Priority Tax Claims against Debtor or its bankruptcy estate shall not be classified for purposes of voting or receiving distributions under the Plan. Rather, all such claims shall be treated separately as unclassified claims on the terms set forth in Article 5 of the Plan. Priority Tax Claims against Creditor consist of minimum Minnesota income taxes for the years 2002 and 2003, totaling \$300 per year plus any penalties and interest due. The Company experienced losses in both years and does not anticipate any Federal taxes due.
3. Claims and Equity Interests. The Plan classifies the Claims and the Equity Interests as follows:
 - (a) Class 1 - Priority Non-Tax Claims;
 - (b) Class 2 - Secured Claims;
 - (c) Class 3A- General Unsecured Claims greater than or equal to \$5,000;

- (d) Class 3B- General Unsecured Claims less than \$5,000;
- (e) Class 4 - Administrative Convenience Claims;
- (f) Class 5 - Equity Interests

B. Identification of Impaired Classes Claims and Equity Interests.

1. **Unimpaired Classes of Claims and Equity Interests.** The Class 1 Priority Non-Tax Claims and the Class 4 Administrative Convenience Claims are not impaired under the Plan.
2. **Impaired Classes of Claims and Equity Interests.** With the exception of the unimpaired classes specified in Section III (B)(1), all classes of Claims and Equity Interests are impaired under the Plan.
3. **Liquidation Preferences.** The Astrocom Restated Articles of Incorporation do not allow for any liquidation preferences of one Security Interest over another Security Interest.

C. Provisions for Treatment of Classes of Claims and Equity Interests.

1. **Claims and Equity Interest.** The classes of Claims against and Equity Interests in Debtor shall be treated as follows:
 - (a) **Class 1 – Priority Non-Tax Claims.** Each holder of a Priority Non-Tax Claim against Debtor shall receive on the Distribution Date (i) the amount of such holder's Allowed Claim in one Cash payment; or (ii) such other treatment as may be agreed upon in writing by Debtor and such holder. See Exhibit "C" of the Plan of Reorganization for a list of all Class 1 Creditors.
 - (b) **Class 2 – Secured Claims.** Each Secured Note Holder shall receive on the Distribution Date, in full satisfaction of the Secured Group Claim, one and one half (1 ½) shares of New Common Stock for each dollar of Secured Note Holder Claim. See Exhibit "B" of the Plan of Reorganization for a list of all Class 2 Creditors. The Secured Notes are secured by all of the Company's assets which have an estimated liquidation value of approximately \$134,512. (See Exhibit A "Liquidation Analysis").
 - (c) **Class 3A – General Unsecured Claims Greater than or Equal to \$5,000.** Each holder of a General Unsecured Claim, in the amount greater than or equal to \$5,000, shall receive on the Distribution Date, in full satisfaction of its Allowed Claim, one share of New Common Stock for each dollar of its Allowed Claim. Class 3A consists of approximately 28 Creditors and totals approximately \$333,582.
 - (d) **Class 3B – General Unsecured Claims Less than \$5,000.** Holders of a General Unsecured Claim, in an amount less than \$5,000, shall receive on the Distribution Date, in full satisfaction of its Allowed Claim, a note for the amount of its claim, the form of which is attached to the Plan as Exhibit "A". The note will

pay interest of one and one half percent (1 ½%) interest annually and will provide for the New Astrocom to repay the amount owed over a one-year period with monthly payments commencing one year following the Distribution Date. Class 3B consists of approximately 23 Creditors and totals approximately \$53,000.

- (e) **Class 4 – Administrative Convenience Claims.** Each holder of an Administrative Convenience Claim shall receive on the Distribution Date, in Cash, in full satisfaction of its Allowed Claim, an amount equal to its Allowed Claim not to exceed \$500.00. Total Administrative Convenience Claims are estimated to be \$3,434.
- (f) **Class 5 –Equity Interests.** There will be no distribution to holders of Equity Interests under the Plan. All Equity Interests will be cancelled.

D. Treatment of Certain Unclassified Claims.

1. **Administrative Claims.** . Each holder of an allowed Administrative Claim, estimated to total \$3,434, (except any such holder that agrees to different treatment) shall receive the Allowed Amount of such holder's allowed Administrative Claim, in cash, in full satisfaction, settlement, release, extinguishment and discharge of such claim, on the Distribution Date; provided, however, that allowed Administrative Claims representing (a) postpetition liabilities incurred in the ordinary course of business by the Debtor and (b) postpetition contractual liabilities arising under loans or advances to the Debtor, whether or not incurred in the ordinary course of business, shall be paid by the Reorganized Debtor in accordance with the terms and conditions of the particular transactions relating to such liabilities and any agreements relating thereto.
2. **Treatment of Priority Tax Claims.** Each holder of an Allowed Priority Tax Claim against Debtor shall receive payment in full, in cash, on the Effective Date.
3. **US Trustee Fees.** Fees payable by Debtor to the Office of the United States Trustee under 28 U.S.C. § 1930, as determined by the Court at the hearing on confirmation of this Plan, will be paid in full on the Effective Date. In addition, following confirmation, the Debtor will timely pay all fees incurred pursuant to 28 §§1930(a)(6) and will file with the Court and serve on the U.S. Trustee a monthly financial report in the prescribed format, for each month or part thereof that the Case remains open.

E. General Description of Plan Securities.

1. **New Common Stock Summary.** Following conversion by secured and unsecured noteholders and unsecured Creditors into New Common Stock of Astrocom, the capitalization will approximately be as follows:

	Ownership		Consideration Paid		
	Number of Shares	Percent	Amount	Percent	Per Share
Secured Noteholders (1)	886,940	28.72%	\$591,293	21.19%	\$0.67
Non-Secured Noteholders (2)	1,868,246	60.48%	\$1,868,246	66.87%	\$1.00
Non Secured Non-priority (3)	333,582	10.8%	\$333,582	11.94%	\$1.00
Total	3,088,768	100.00%	\$2,793,121	100.00%	
(1)	Refers to pre-bankruptcy petition Creditors holding secured debt.				
(2)	Refers to pre-bankruptcy petition Creditors holding non-secured debt.				
(3)	Refers to pre-bankruptcy petition unsecured Creditors.				

2. **Description.** A description of the New Common Stock follows:
 - a. Astrocom will be authorized to issue 20,000,000 shares of capital stock.
 - b. The New Common Stock will have one vote per share held of record.
 - c. Subject to any restrictions contained in the amended and restated Articles of Incorporation, the unissued shares of New Common Stock will be available for designation and issuance from time to time as determined by the Board of Directors without further action or by or approval of the holders of the issued New Common Stock, for any permissible corporate purpose.

F. Other Plan Provisions

1. **Distributions.** Astrocom shall act as disbursing agent for all Plan distributions. As soon as is practicable after the Effective Date Astrocom shall make an initial issuance and distribution of the New Common Stock to all holders of Allowed Claims in Classes 1, 2 and 3. Any shares which are allocated to a Contested Claim will be unissued shares reserved until that Claim is resolved and then appropriate shares will be issued and distributed to the claimant or remain in the pool of undedicated New Common Stock. Astrocom shall make such adjustments as are necessary to avoid the issuance of fractional shares of the New Common Stock. If any Claim would otherwise entitle the holder thereof to a fractional share of the New Common Stock, such Claim shall, solely for purposes of calculating the number of Shares of New Common Stock to be distributed to the holder of such Claim, be rounded down to the highest lesser amount entitling such holder to an integral number of shares of New Common Stock.

2. **Unclaimed Distributions.** If, at the time of any Distribution under the Plan, the Creditor holding the Allowed Claim to be distributed thereunder is not at the address given to Astrocom, the property involved shall be held by Astrocom subject to such Creditor's Claim. Such property shall be distributed as follows:
 - a. If the Creditor holding the Allowed Claim shall be found before 30 days prior to the Final Distribution, then such property shall immediately be delivered to such Creditor.
 - b. All distributions remaining unclaimed 30 days prior to the Final Distribution shall become (i) the property of Astrocom in the case of Cash and (ii) with respect to shares of New Common Stock, to become cancelled shares of Astrocom.
3. **Executory Contracts and Unexpired Leases.** All unexpired leases and executory contracts (including insurance contracts) to which Astrocom is a party and which have not been assumed, assigned, rejected or terminated by a Final Order prior to the Confirmation Date; or which are not the subject of a motion to assume or reject that is filed with the Bankruptcy Court not later than five (5) Business Days before the date when the Ballots are due shall be deemed rejected immediately prior to the confirmation of the Plan. Debtor currently does not intend to assume or assign any executory contracts. Each Person who is a party to an executory contract or unexpired lease rejected as described in this section shall be entitled to file, not later than thirty (30) days after entry of the Confirmation Order, a proof of claim for damages alleged to arise from the rejection of such executory contract or unexpired lease. Any Allowed Claims arising out of the rejection of executory contracts or unexpired leases shall be Class 3 or 4 Claims, depending upon the amount thereof and the Claim holder's election, if applicable.

IV IMPLEMENTATION OF THE PLAN

A. Creation of the Post-Confirmation Board of Directors.

Beginning on the effective date, the Board of directors of New Astrocom will consist of the following 5 directors:

Duane S. Carlson-Director

Gary L. Deaner-Director

Douglas M. Pihl-Director

Marius O. Poliac-Director

Ronald B. Thomas – Director-Chief Executive Officer and President

B. Articles of Incorporation

Astrocom's Articles of Incorporation shall be restated or amended as necessary to satisfy the provisions of the Plan and to the extent necessary to prohibit the issuance of nonvoting equity securities as required by Section 1123(a)(6) of the Code, subject to further amendment of the Articles of Incorporation as permitted by applicable law.

C. Cancellation of Equity Interests and Issuance of Stock.

On or as soon as practicable after the Effective Date, the following transactions shall occur in the following order:

- a. The cancellation, annulment and extinguishment of all Equity Interests; and,
- b. The issuance, distribution and transfer by New Astrocom of the New Common Stock in accordance with the terms of this Plan.

D. Assumption of Liabilities.

The liability for and obligation to make the distributions required under the Plan shall be assumed by New Astrocom.

E. Effectuating Documents.

On or before the Effective Date, Debtor will file with the Bankruptcy Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of the Plan.

F. Avoidance Actions.

Confirmation of the Plan shall constitute a waiver by New Astrocom of any and all causes of action assertable by Debtor pursuant to Sections 547, 548, 549 or 550 of the Bankruptcy Code

G. Officers.

The Plan contemplates that current management will remain in their positions after the Effective Date. The Management team consists of:

Ronald B. Thomas – President, Chief Executive Officer and Director

John Bucher – Director of Operations

H. Issuance of New Astrocom Stock; No Representations Regarding Resale

1. **Issuance of New Astrocom Stock Pursuant to the Plan of Reorganization.**
With respect to the New Astrocom Stock to be distributed under the Plan, Astrocom intends to rely upon the exemption from the registration requirements of the Securities Act of 1933, as amended (the “Securities Act”) (and of equivalent state securities or “blue sky” laws) provided by section 1145(a)(1) of the Code. Generally, section 1145(a)(1) of the Code exempts the issuance of securities from the registration requirements of the Securities Act and equivalent state securities and blue sky laws if the following conditions are satisfied: (i) the securities are issued by a debtor under a plan of reorganization; (ii) the recipients of the securities hold a claim against, an interest in, or a claim for an administrative expense against, the debtor, or are issued “principally” in such exchange and “partly” for cash or property. Astrocom believes that the distribution of the Astrocom Stock will satisfy the aforementioned requirements.

2. **No Representations Regarding Resale of New Astrocom Securities.** The Plan does not require the registration of the shares of common stock of New Astrocom to be distributed pursuant to the Plan, and no registration rights are granted under the Plan. There is no assurance that there will ever be a secondary market for shares of New Astrocom or that the shares can be resold. Debtor makes no representations with respect to whether resale of common stock will be permitted under state and federal securities laws.

V. CONDITIONS PRECEDENT TO CONFIRMATION AND EFFECTIVENESS

- A. **Conditions Prior to Confirmation.** Confirmation of this Plan shall not occur unless each of the following conditions has been satisfied. These confirmation conditions are as follows:
 1. **Disclosure Statement.** The Bankruptcy Court shall have approved the Disclosure Statement in a Final Order.
 2. **Confirmation Order.** The Bankruptcy Court shall have made such findings and determinations regarding this Plan as shall enable the entry of the Confirmation Order, and any other order entered in conjunction therewith, in form and substance acceptable to the Debtor.
- B. **Conditions to Satisfy Prior to Effective Date.** Notwithstanding any other provision of this Plan or the Confirmation Order, the Effective Date of this Plan shall not occur unless and until each of the following conditions has been satisfied:
 1. **Final Confirmation Order.** The Confirmation Order (and such related orders shall have become a Final Order.
 2. **Corporate Documents.** Any applicable corporate documents necessary or appropriate to the implementation of this Plan shall have been executed, delivered and, where applicable, filed with the appropriate governmental authorities including, but not limited to the Restated or Amended Articles of Incorporation.
 3. **United States Trustee's Fees.** The fees of the United States Trustee for the District of Minnesota then owing by the Debtor shall have been paid in full.
- C. **Waiver.** Notwithstanding any other provision of this Plan or the Confirmation Order, this Plan shall not be binding on any party in interest unless and until each of the foregoing conditions to Confirmation and the Effective Date has occurred or has been waived in a writing executed by the Debtor.

VI. CERTAIN RISK FACTORS

- A. **Operating Performance.**

Astrocom's operations are not currently profitable. Astrocom is subject to economic forces beyond its control that affect its operations and profitability, including competition.

B. Current Cash Position. As of May 28, 2004, the Company had approximately \$55,000 of cash available for operations.

C. History of Operating Losses

The Company had an operating loss of \$1,902,228 in 2001; an operating loss of \$1,442,299 in 2002; and operating loss of \$ 959,100 in 2003; and has had an operating profit of approximately \$2,015 through the first quarter of 2004.

D. Reliability of Plans

Management has made its best effort to plan the development of the Company's PowerLink products, however, there are substantial risks and uncertainties associated with the time schedule and financial requirement projections. There could be errors of omission or of estimation, new events or circumstances imposed on the business that require additional time and/or capital, or the products could fail any number of tests, governmental requirements or market requirements, resulting in delays, redesigns or even abandonment of a product or products. Any of these events, as well as others currently unforeseen, could materially impact management's plans for development of the business.

E. Reliance on a Single Product

Although the Company has a broad range of legacy products, the future strategy and anticipated success is based exclusively on the PowerLink product family. While this strategy includes expanding the product offering to include a broad array of features and functions, there can be no assurance that any of these products, or additions, will be accepted by the market and result in meaningful revenue. Absent such market acceptance, the Company will likely be forced to cease operations.

F. Competition

The industry in which Astrocom operates is highly competitive. Substantially all of the Company's competitors are established companies with significantly greater financial resources, more extensive business experience, and stronger marketing and service capabilities than the Company. There can be no assurance that the Company will be able to compete successfully. The Company has identified competitors that have products that perform functions similar to the PowerLink. See section II (A) above.

G. Technological Obsolescence

The marketplace for WAN aggregation products is extremely complex and rapidly changing. There can be no assurance that the Company's products will not be superseded by changes in technology making them obsolete.

H. Lack of Sales

The Company has been shipping production versions of the PowerLink for approximately twenty-four months and has had limited sales to date. Sales revenue for the first 6 months 2004 were:

January	\$23,387
February	\$14,125
March	\$100,763
April	\$17,314
May	\$56,219
June	\$100,785

While the Company believes that it has various relationships established that will generate sales growth, there can be no assurances that these additional sales volumes will occur.

I. Patents

The Company has been notified by one of its competitors, Fat Pipe, that Fat Pipe believes the Company is infringing on a patent that Fat Pipe owns. The Company's management and engineering personnel have reviewed the patents and do not believe the Company is infringing on the patents. In addition, the Company has obtained a legal opinion from patent counsel that their product does not infringe on the Fat Pipe patents. However, it is possible that the Company could be found to be infringing on the patents. Furthermore, the Company may not have sufficient financial resources to defend a claim in the event that Fat Pipe brings legal action against the Company. In addition, there can be no assurance that the technology used in the products of the Company will not infringe on the patents of other competitors.

J. Market Acceptance of Products

There are many products currently being offered for sale in the market segments in which the Company competes and intends to compete. There can be no assurance that the Company's intended customers will purchase the Company's products instead of competing products. Failure to obtain significant customer satisfaction or market share would have a material adverse effect on the Company's business and financial results.

K. Dependence on Third Parties for Manufacturing

Astrocom has entered into manufacturing arrangements with outside sources for its products. If manufacturing arrangements prove unsatisfactory or manufacturers are unable to obtain components on a timely basis, the Company's business and operations could be materially adversely affected.

L. Restrictions on Transfer of Securities

There can be no assurance that any trading market for Astrocom Stock will develop.

M. Dividends

The Company has no present intention to pay dividends.

N. Limitation on Director's Liability Under Minnesota Law

Pursuant to the Company's Articles of Incorporation, as authorized under applicable Minnesota law, directors of the Company are not liable for monetary damages for breach of fiduciary duty, except in connection with a breach of the duty of loyalty, for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, for dividend payment or stock repurchases illegal under Minnesota law or for any transaction in which a director has derived an improper personal benefit. In addition, the Company's Restated Bylaws provide that the Company must indemnify its officers and directors of any action against such persons in connection with their having served as officers or directors of the Company

O. Risk of Non-Confirmation of Plan.

Although the Debtor believes that the Plan will satisfy all requirements necessary for confirmation of the Plan by the Court, there can be no assurance that the Court will reach the same conclusion. There can also be no assurance that modifications of the Plan will not be required for confirmation or that such modifications would not require resolicitation of votes. See, "Acceptance and Confirmation of the Plan".

VII. CERTAIN FEDERAL INCOME TAX CONSEQUENCES OF THE PLAN

A. Tax Consequences To Creditors.

The tax consequences of the implementation of the Plan to a Creditor will depend on many factors, including but not necessarily limited to whether the Creditor's claim constitutes a "security" of the Debtor for federal income tax purposes, the type of consideration received by the Creditor in exchange for its claim, whether the Creditor reports income on the accrual basis, whether the Creditor receives consideration in more than one tax year of the Creditor, whether the Creditor is a U.S. resident and whether all the consideration received by the Creditor is deemed to be received by that Creditor in an integrated transaction.

THE TAX IMPACT ON THE CREDITORS AND INTEREST HOLDERS OF ASTROCOM RECEIVING CASH OR STOCK IS UNKNOWN TO ASTROCOM. ACCORDINGLY CREDITORS AND INTEREST HOLDERS ARE ADVISED TO SEEK ADVICE OF COUNSEL ON THE TAX IMPACT OF THE PLAN.

VIII. ACCEPTANCE AND CONFIRMATION OF THE PLAN

A. Confirmation Hearing.

The Court has scheduled the Confirmation Hearing to commence on _____, 2004 at _____. That hearing will be held in Courtroom 228A, United States Courthouse, 316 North Robert Street, St. Paul, Minnesota. At that hearing, the Court will consider whether the Plan satisfies the various requirements of the Code, including whether it is feasible, and whether it is in the best interests of the Creditors of the Debtor. At that time, the Debtor will submit a report to the Court concerning the votes for acceptance or rejection of the Plan by the parties entitled to vote. The Confirmation Hearing may be adjourned from time to time by the Court without further notice, except for an announcement made at the hearing or any adjournment thereof.

B. Requirements for Confirmation.

At the Confirmation Hearing, the Court will determine whether the provisions of section 1129 of the Code have been satisfied. If all of the provisions of section 1129 are met, the Court may enter an order confirming the Plan. The Court is permitted to confirm only one plan. The Debtor believes that the Plan will satisfy requirements of section 1129.

C. Cramdown.

Upon request of the plan proponent a court may confirm a plan of reorganization, even if it is not accepted by all impaired classes, if the plan has been accepted by at least one impaired class of claims and the plan meets the "cramdown" provisions set forth in section 1129(b) of the Code. It is probable that the distribution of New Common Stock to Classes 2 Creditors will not result in full payment of their claims. Thus, this class will have to consent to the distribution of New Common Stock to Class 3 Creditors, which Class 3 is junior to Class 2 Creditors.

D. Plan Meets Requirements for Confirmation.

1. Best Interests of Creditors – Liquidation Alternative. In the opinion of the Debtor, the treatments proposed in the Plan contemplate a greater recovery than that which is likely to be achieved under liquidation of the Debtor.

If the Plan is not confirmed, and if the Court does not grant additional time for the Debtor or others to file an amended plan, the Court may liquidate the Debtor, either under Chapter 11 of the Code or by converting the Case to a proceeding under Chapter 7 of the Code and appointing a trustee to oversee such liquidation. Because of the difficulties in estimating what the assets of the Debtor would bring in liquidation, the uncertainties concerning the aggregate Claims to be paid and their priority in liquidation, it is very difficult to predict with certainty what return, if any, each Class of Creditors or Interest holders might receive in a liquidation; however, Astrocom is of the opinion that a liquidation would not yield sufficient cash to pay administrative and priority claims in full and that Astrocom's Creditors would receive nothing.

Management has prepared a Liquidation Analysis, which is attached as Exhibit "A" to the Plan of Reorganization. The analysis assumes an orderly, short-term "going out of business" operation.

2. Feasibility of the Plan. Section 1129(a)(11) of the Bankruptcy Code requires that Confirmation not be likely to be followed by liquidation, or the need for further financial reorganization, of the Debtor or any successor to the Debtor (unless such liquidation or reorganization is proposed in the Plan). For purposes of determining whether the Plan meets this requirement, the Debtor has analyzed its ability to meet its respective obligations under the Plan. As part of this analysis the Debtor has prepared Financial Projections. The Financial Projections, and the material assumptions, on which they are based, are attached as Exhibit "B" hereto. Based upon the Projections, the Debtor believes that its reorganization under the Plan will meet the feasibility requirements of the Bankruptcy Code.

E. Alternatives to Confirmation and Consummation of the Plan.

Astrocom has evaluated numerous reorganization alternatives to the Plan, including:

- a. The formulation of alternative plans of reorganization;
- b. A distressed sale of the Debtor as an going concern; and
- c. A liquidation of the Debtor's property.

After studying these alternatives, the Debtor has concluded that the Plan, as proposed, is the best alternative and will maximize recoveries by the holders of the Claims – assuming confirmation and successful implementation of the Debtor's business plan (including achievement of projected results). The following discussion provides a summary of the Debtor's analysis leading to its conclusion that an alternative plan, a distressed sale, or a liquidation would not provide the highest value to holders of Claims.

1. Alternative Plans of Reorganization. If the Plan proposed herein is not confirmed, the Debtor – subject to further determination by the Court – or any other party in interest could attempt to formulate and propose different plans of reorganization. However, the Debtor has assisted in the solicitation of Plan investors and otherwise explored various alternatives. The Debtor believes that

the Plan, as described herein, enables Creditors to realize the most value under the present circumstances.

2. **Distressed Sale of the Debtor as a Going Concern.** Astrocom believes that a sale at this time would be on a distressed basis. As a result, the value received by each holder of an impaired Claim under a distressed sale is believed to be less than that which they will receive under the Plan proposed herein. Astrocom has estimated that there would be minimal proceeds available to its Creditors after a distressed disposition of its assets. A distressed sale would involve payment of selling transaction fees and priority claims (e.g. severance, workers compensation, taxes) and Astrocom's estimate represents its best estimate of realizable value predicated on numerous uncertain variables. A distressed sale could also have adverse effects including, but not limited to, impaired employee morale, vendor terms, and customer relations, thus diminishing values. Additionally, Astrocom considers it unlikely that any buyer would be able to implement a business plan that could reasonably justify a valuation of the Debtor's business greater than the value contemplated by the Plan proposed herein.
3. **Liquidation of the Debtor's Assets.** If no plan of reorganization can be confirmed, the chapter 11 case may be converted to a liquidation case under chapter 7 of the Code. In a chapter 7 case, a trustee would be elected or appointed to liquidate the assets of the Debtor. The proceeds of the liquidation would be distributed to Creditors in accordance with the priorities established by the Code.

The Debtor has analyzed whether the break-up and liquidation of the Debtor's property would result in a higher recovery and be in the best interest of holders of Claims. The Debtor concluded that its business enjoys considerable enhanced value on an operating basis. Thus liquidation would likely result in a value that is materially lower than that which is contemplated by the Plan as proposed herein.

The Debtor believes that a break-up and liquidation would result in substantial diminution in the value to be realized by holders of Claims because of, among other factors, (i) the failure to realize the maximum possible going concern value of the Debtor's assets, (ii) additional administrative expenses involved in the appointment of a trustee or trustees, attorneys, accountants, and other professionals to assist such trustee(s) (relating to a chapter 7 case). (iii) the substantial time that would elapse before Creditors would know if they were to receive any distribution in respect of their Claims. Consequently, the Debtor believes that the Plan, which provides for the continuation of the Debtor's business, provides a substantially greater return to holders of Claims than would liquidation. See Liquidation Analysis attached hereto as Exhibit "A" to this Disclosure Statement.

4. **Conclusion.** For the reasons stated above, it is the Debtor's opinion that any alternative other than the Plan proposed herein would not be in the best interest of holders of Claims.

F. Projected Financial Information.

1. **Condition of Confirmation.** As a condition to confirmation of a plan of reorganization, the Code requires, among other things, that the Bankruptcy Court determine that confirmation is not likely to be followed by the liquidation or need for further financial reorganization of the debtor. In connection with the development of the Plan, and for purposes of determining whether the Plan

satisfies this feasibility standard, the management of Astrocom analyzed the ability of Astrocom as a reorganized entity to meet its obligations under the Plan with sufficient liquidity and capital resources to conduct its business. In this regard the management of Astrocom developed, and periodically refines, the Debtor's business plan and prepared certain projections of the Debtor's income, free cash flow, and certain other items for the fiscal year ending 2004 and the two year period (the "Projection Period") from fiscal year ending 2004 through 2006. The Projections are attached hereto as Exhibit "B" to this Disclosure Statement. The financial information included in the Projections reflects management's judgement as to the information that is material in the circumstances. The Projections should be read in conjunction with the assumptions, qualifications, and explanations set forth therein.

2. **Debtors Financial Projections.** Both the Debtor's business plan and the Projections attached to as Exhibit "B" reflect numerous assumptions, including assumptions with respect to the anticipated future performance of the Debtor, industry performance, general business and economic conditions, and other matters, many of which are beyond the control of the Debtor. As a result, the Debtor expects to continue to review and revise its business plan from time to time. Changes in the Projections resulting from such review and revisions, or from revisions to the Plan or the assumptions relating thereto, could be material. In addition, unanticipated events and circumstances may affect the actual financial results of the Debtor. Therefore, while the Projections are necessarily presented with numerical specificity, the Projections are based upon a variety of assumptions that are subject to significant business, economic and competitive uncertainties and contingencies. While the management of the Debtor believes that the assumptions underlying the Projections for the fiscal year 2004 and the entire projection period, when considered on an overall basis, are reasonable in light of current circumstances, no assurance can be, or is being given, that the Projections will be realized. Therefore, actual results achieved may vary from the projected results, and such variations may be material. As indicated below, the business plan on which the Projections are based assumes, among other things, improvements in the Debtor's results of operation during the fiscal year ending 2004 and the remainder of the projection period as compared to earlier fiscal periods. Holders of Claims must make their own determinations as to the reasonableness of such assumptions and the reliability of the Projections in reaching their determination of whether to accept or reject the Plan.

The inclusion of the Projections herein should not be regarded as a representation by the Debtor, or any other person, that the Projections will be realized. Due to the fact that the Projections are subject to significant uncertainty and are based upon assumptions which may not prove to be correct, neither the Debtor nor any other person assumes any responsibility for their accuracy or completeness. Additionally, the Projections were not prepared with a view towards compliance with the guidelines established by the American Institute of Certified Public Accountants regarding financial forecasts. Furthermore, the Projections have not been examined, reviewed or compiled by the Debtor's independent auditors.

3. **Assumptions Underlying the Projections.** The Projections were prepared by management of the Debtor to provide information relating to the feasibility of the Plan and the Debtor's ability to meet its obligations in the future. Accordingly, the Projections reflect management's judgment as of May 28, 2004 of expected conditions and management's expected course of action under the Plan. In the opinion of management of the Debtor, the underlying significant assumptions set forth in the Projections provide a reasonable basis for the Projections, assuming

the Plan is adopted at or near August 1, 2004 and becomes effective in the middle of October 2004. However, because events and circumstances frequently do not occur as expected, there will usually be differences between the Projections and actual results, and those differences may be material.

IX. CONCLUSION

The Debtor believes that the Plan should be accepted. Debtor urges all holders of claims and interests who are entitled to vote to vote in favor of the Plan. Approval of this Disclosure Statement by the Court does not mean that the Court recommends either acceptance or rejection of the Plan.

Dated: July 26, 2004

ASTROCOM CORPORATION

By /s/ **Ronald B. Thomas**
Ronald B. Thomas
Its Chief Executive Officer and
President
3500 Holly Lane North, Suite 60
Minneapolis, MN 55447

THOMAS F. MILLER, P.A.

BY /E/ **THOMAS F. MILLER**
Thomas F. Miller, Lic. No. 73477
130 Lake Street West
Wayzata, MN 55391
Tel.: (952) 404-3896
Fax: (952) 404-3893
Email: Thomas@Millerlaw.com